

Message Text

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PAGE 01 LONDON 00662 01 OF 02 141041Z
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
PA-02 PRS-01 /096 W
-----141044Z 040480 /21

O 141031Z JAN 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9478
TREASURY DEPT WASHDC IMMEDIATE

UNCLAS SECTION 01 OF 02 LONDON 00662

DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: THE PRIME MINISTER IN PARLIAMENT ON INDUSTRIAL
AND FINANCIAL POLICY

1. DURING A PARLIAMENTARY ECHANGE ON JANUARY 13, THE
PRIME MINISTER COMMENTED ON INTEREST RATES, STERLING,
AND INDUSTRIAL POLICY. IT IS REPORTED IN THE TIMES AS
FOLLOWS:

QUOTE: PM EXPECTS INTEREST RATES TO FALL IN 1977.

MR. JAMES CALLAGHAN, PRIME MINISTER, SAID HE EXPECTED
TO SEE INTEREST RATES FALL OVER THE NEXT 12 MONTHS.

MR. BRYAN GOULD (SOUTHAMPTON, TEST, LAB) HAD ASKED
WHEN INTEREST RATES WOULD BE ALLOWED TO FALL SUBSTANTIAL-
LY?

MR. CALLAGHAN -- IT DEPENDS ON A NUMBER OF MATTERS,
INCLUDING THE SALE OF GILT-EDGED SECURITIES AND OTHER IS-
SUES OF THAT SORT.

BUT I EXPECT TO SEE, AS GENERALLY ACCEPTED, A FALL
IN THE INTEREST RATES OVER THE NEXT 12 MONTHS.

MR. PETER ROSE (SOUTH-EAST DERBYSHIRE, C) -- THE
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PAGE 02 LONDON 00662 01 OF 02 141041Z

CITY, OUR CREDITORS, AND THE COUNTRY WOULD LIKE TO KNOW
HOW THE PRIME MINISTER'S DISASTROUS FAILURE AS A PREVIOUS
CHANCELLOR OF THE EXCHEQUER QUALIFIED HIM TO ASSUME RE-
SPONSIBILITY OVER HIS EXISTING DISCREDITED CHANCELLOR
(MR. HEALEY).

AS MR. CALLAGHAN HAD LOST CONFIDENCE IN MR. HEALEY,
LIKE EVERYBODY ELSE, HE SHOULD APPOINT SOMEBODY ELSE TO

THE JOB OTHER THAN HIMSELF.

MR. CALLAGHAN -- ALTHOUGH I HESITATE TO SAY THIS IN LIGHT OF THE ATMOSPHERE THIS AFTERNOON, MR. ROST SHOULD NOT BELIEVE ALL HE READS IN THE NEWSPAPER HEADLINES -- (CONSERVATIVE INTERRUPTIONS AND SHOUTS OF "CENSORSHIP") --NOR SHOULD WE BELIEVE ALL THE MISCHIEF-MAKING ARTICLES THAT MAY APPEAR ON THESE MATTERS.

THE SITUATION IS QUITE CLEAR, AND I WANT TO MAKE IT CLEAR NOW; THANKS TO THE GOVERNMENT'S MEASURES, THE IMF LOAN, AND THE SAFETY NET, THE FRENTIC APPEARANCE WE HAD BEFORE CHRISTMAS ON THE MATTER OF STERLING IS NOW LIKELY TO DISAPPEAR.

STERLING IS GOING TO BE MUCH MORE STABLE OVER THE NEXT 12 MONTHS, THEREFORE WHAT I WISH TO DO TODAY IS FOCUS THE COUNTRY'S ATTENTION NOT ON THE ISSUE OF STERLING -- THAT IS NOT OF REAL ISSUE AT THIS TIME -- BUT ON THE QUESTION OF HOW BRITISH INDUSTRY IS TO BECOME AS PRODUCTIVE, EFFICIENT AND EXPORT-MINDED AS POSSIBLE. TO THIS END, I HAVE BEEN INVITED AND SHALL BE TAKING THE CHAIR AT THE NEXT NEDC MEETING.

I INTEND TO UNDERTAKE A NUMBER OF INDUSTRIAL VISITS, ESPECIALLY TO FACTORIES DOING WELL IN EXPORT.

THE RESPONSIBILITIES OF MINISTERS ARE IN NO WAY ALTERED OR DIMINISHED, ALTHOUGH I WILL TRY TO FOCUS ATTENTION ON THIS ISSUE THE COUNTRY HAS GOT TO SOLVE IF WE ARE TO OVERCOME INFLATION AND UNEMPLOYMENT.

MR. MIKE THOMAS (NEWCASTLE UPON TYNE, EAST, LAB) --

UNCLASSIFIED

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PAGE 03 LONDON 00662 01 OF 02 141041Z

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PAGE 01 LONDON 00662 02 OF 02 141039Z
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FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
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UNCLAS SECTION 02 OF 02 LONDON 00662

IN THE REAL WORLD, WHICH CLEARLY THE OPPOSITION DO NOT INHABIT, THAT REPLY WILL BE WIDELY WELCOMED.

WHAT IMPACT WILL THE REPAYMENT OF SPECIAL DEPOSITS, ANNOUNCED EARLIER TODAY, HAVE BOTH ON INTEREST RATES INDUSTRY ARE ASKED TO PAY FOR INVESTMENT, AND ALSO FOR DOMESTIC RATES OF INTEREST FOR MORTGAGES?

MR. CALLAGHAN -- THIS IS A TECHNICAL ADJUSTMENT WHICH HAS BEEN MADE TODAY; IT DOES NOT HAVE ANY PARTICULAR IMPLICATION ON THE FUTURE LEVEL OF INTEREST RATES. I EXPECT TO SEE THEM DECLINING OVER THE NEXT 12 MONTHS, AND MORTGAGE RATES WOULD BENEFIT FROM SUCH A DECLINE. END QUOTE.

2. THE TIMES, IN A FRONT-PAGE ARTICLE, CHARACTERIZED THE ABOVE AS MR. CALLAGHAN CONTRADICTING THE FINANCE AND INDUSTRY OVERLORD IMPRESSION BUT NONETHELESS ADDED THE FOLLOWING:

QUOTE: IN FACT, THE NEWS OF MR. CALLAGHAN'S INITIATIVE CAME FROM IMPECCABLE SOURCES AND HE COULD NOT HAVE BEEN SURPRISED BY THE INTERPRETATION PLACED UPON IT. IT WAS INDEED CLEAR THAT MR. CALLAGHAN IS NOT SATISFIED WITH UNCLASSIFIED

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PAGE 02 LONDON 00662 02 OF 02 141039Z

THE WAY MR. HEALEY AND THE TREASURY HANDLED THE STERLING CRISIS DURING OCTOBER AND NOVEMBER, AND THAT HE WILL PERSONALLY SUPERVISE THE ARRANGEMENTS MADE UNDER THE BASLE AGREEMENT.

HE INTENDS TO HAVE FREQUENT MEETINGS WITH MR. HEALEY AND MR. GORDON RICHARDSON, GOVERNOR OF THE BANK OF ENGLAND, TO MONITOR THE EFFECTS OF THE BASLE AGREEMENT ON THE OFFICIAL STERLING BALANCES, AND THE BANK'S OPERATIONS IN SUPPORT OF STERLING.

THE PRIME MINISTER WAS NOT INVOLVED IN THE DETAILED NEGOTIATIONS OF THE BASLE AGREEMENT, BUT HE CLAIMS THE CREDIT FOR HAVING TAKEN THE INITIATIVE IN TALKS WITH HERR SCHMIDT, THE WEST GERMAN CHANCELLOR, AT CHEQUERS LAST YEAR. END QUOTE.

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